

## **FISCAL NOTE**

### **SB 3343 - HB 3411**

February 23, 2006

**SUMMARY OF BILL:** Reduces the sales tax rate on food from 6% to 5%. Defines “Food and food ingredients”, “Alcoholic Beverages”, and “Tobacco” as it applies to sales and use tax on food. Redefines “Prepared food” as it applies to sales and use tax on food.

#### **ESTIMATED FISCAL IMPACT:**

**Decrease State Revenues – Net Impact – \$35,850,000 - FY06-07**  
**Net Impact - \$71,700,000 – FY07-08 and thereafter**

**Decrease Local Govt. Revenues – Net Impact – \$1,625,000 – FY06-07**  
**Net Impact - \$3,250,000 – FY07-08 and thereafter**

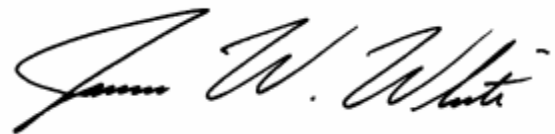
#### Assumptions:

- Taxable sales of food and food ingredients in Tennessee for 2004 were estimated at approximately \$7.0 billion.
- CPI on food increased by approximately 2.0% in 2005.
- Inflation rate on food remains constant at 2.0% per year.
- Inflation-adjusted taxable sales for food and food ingredients in Tennessee for 2007 are estimated at \$7.43 billion.
- Reducing the state sales tax rate on food by 1% (from 6% to 5%) will reduce state sales tax revenue by approximately \$74.3 million (\$7.43 billion X 1% reduction = \$74.3 million).
- Current law appropriates 4.4194% of state sales tax revenue to the municipalities within Tennessee.
- Reducing state sales tax revenue by \$74.3 million will reduce local government revenues by approximately \$3.28 million (\$74.3 million X 4.4194% = \$3.28 million).
- 50% of consumer tax savings will be spent on other non-food sales taxable items in Tennessee at the current state rate of 7% and at a local option rate that averages 2.25%.

- The state would realize offsetting increases in sales tax revenue estimated at \$2.6 million ( $\$74.3 \text{ million} \times 50\% \times 7\% = \$2.6 \text{ million}$ ).
- Local governments would realize offsetting increases in sales tax revenue estimated at \$37,000 ( $\$3.28 \text{ million} \times 50\% \times 2.25\% = \$37,000$ ).
- The aggregate net decrease to state revenues for the first full fiscal year (FY07-08) would be approximately \$71.7 million ( $\$74.3 \text{ million} - \$2.6 \text{ million} = \$71.7 \text{ million}$ ).
- The aggregate net decrease to local government revenues for the first full fiscal year (FY07-08) would be approximately \$3.25 million ( $\$3.28 \text{ million} - \$37,000 = \$3.25 \text{ million}$ ).
- This act shall take effect on January 1, 2007.
- State revenues for FY06-07 are estimated to decrease approximately \$35.85 million ( $\$71.7 \text{ million full year impact} \div 2 = \$35.85 \text{ million for half year impact}$ ).
- Local government revenues for FY06-07 are estimated to decrease approximately \$1,625,000 ( $\$3.25 \text{ million full year impact} \div 2 = \$1,625,000 \text{ for half year impact}$ ).

## **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director